The Energy And Technology Committee

February 23, 2006

<u>House Bill 5261: AAC NATURAL GAS AND OIL CONSERVATION</u>

Testimony of

The Office of Consumer Counsel

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The Office of Consumer Counsel (OCC), the independent state advocate for consumer interests in all matters which may affect Connecticut consumers with respect to public service companies, including electric and natural gas utilities, has carefully reviewed the concept of House Bill 5261: AAC Natural Gas and Oil Conservation. While OCC has been at the forefront in its support of the development of energy conservation programs for Connecticut's regulated utility companies, OCC must express its concern on the magnitude of the increase in mandatory natural gas industry conservation initiatives proposed in the bill and the manner in which such programs would be funded.

Currently, ratepayers of Connecticut's natural gas local distribution companies (LDCs) contribute to an annual conservation program fund of approximately $2.4 million. HB 5261 if enacted as proposed, would effectively increase rates paid by customers of the natural gas local distribution companies by approximately $8 million in 2007, $18 million in 2008, and $28 million in 2009 to fund increased conservation initiatives. While OCC does not oppose some increase in natural gas related conservation programs, OCC must question the need for such a drastic increase in expenditures at this time.

While increasing the efficient use of natural gas is an accepted public policy for the State of Connecticut, there has been no evidence showing that the current funding levels are at inadequate levels. In fact, many residents and businesses have already reacted to higher gas prices with a significant conservation response, as demonstrated by a decrease in Connecticut natural gas company sales levels over the last eighteen months.

The bill's proposal to use the purchased gas adjustment clause (PGA) or annual rate case proceedings is not well conceived, since during these times of already high energy prices, it will create an additional economic hardship of even higher rates, particularly on Connecticut's lower and middle class residents, as well as business customers. This will likely result in effectively taxing lower income persons and small businesses to subsidize the purchase of new, cost-effective appliances for wealthier individuals and large businesses they may well buy even without such incentives.

In regards to the establishment of a fuel oil conservation fund based on a diversion of taxes from the State's General Fund, OCC takes no position, as OCC does not have statutory authority to advocate on behalf of customers on such issues. OCC does note however, that the proposed mechanism of using tax revenues that are part of the General Fund for funding the home heating oil conservation program would be instructive on a mechanism for funding the proposed increase in natural gas conservation programs. Natural gas LDCs already pay millions of dollars of gross earnings taxes annually. The level of gross receipts taxes paid by ratepayers grows as the price paid for gas supply by Connecticut's gas LDCs increases. The recovery of the increased gas supply costs and gross receipts tax from ratepayers is done monthly through the company's purchased gas adjustment clause. By using the gross receipts tax revenues, natural gas ratepayers would be treated in a balanced manner to that of home heating oil customers if state tax dollars are diverted to fund increased conservation activities.